



PEHP PLAN EQUITY

EXECUTIVE APPROPRIATIONS COMMITTEE
STAFF: BRIAN FAY

ISSUE BRIEF

Summary

In 2006 PEHP and the legislature created a high deductible health plan option for public employees known as the STAR plan. While the plan was designed to be actuarially equivalent, experience has shown that, once adjusted for risk, those who choose the STAR plan receive a richer benefit than those who choose the traditional plan. To make the plans actuarially equivalent, PEHP officials could decrease STAR plan benefits and increase employee costs. Doing so would reduce the PEHP renewal rate from 9% to 6.2%, resulting in a \$3.5M savings to the General/Education funds. Should the legislature decide to seek plan equity, PEHP has developed a few options that can be implemented with a joint resolution:

- Actuarial Equivalent: Raises deductibles and out-of-pocket maximums and adds employee premiums.
- Phase In: Raises out-of-pocket maximums and phases in employee premiums over a number of years.
- Equal Deductible: Raises out-of-pocket maximums and adds employee premiums.

Background

During the 2006 General Session, the legislature passed, and Governor signed, [House Bill 76 – High Deductible Health Plan Option for Public Employees](#) which created what is now known as the STAR plan. The initial expectation was that the actuarial value of the STAR plan would be approximately 79% of the traditional plan (Milliman Actuary). Since the employer contributes 90% of the premiums for the traditional plan and the employer contributes the same amount whether an employee is on the traditional plan or the STAR plan, this left an 11% gap between the actuarial value of the STAR plan and the employer contribution. This excess funding is currently used as an employer contribution to the STAR plan employee's health savings account (HSA). The current annual employer HSA contribution is \$791.96 for single coverage and \$1,583.92 for double or family coverage.

The STAR plan is authorized in UCA 49-20-410 and regarding employer HSA contributions it states :

- (3) (a) Contributions to the health savings account may be made by the employer.
(b) The amount of the employer contributions under Subsection (3)(a) shall be determined annually by the office, after consultation with the Department of Human Resource Management and the Governor's Office of Management and Budget so that the annual employer contribution amount reflects the difference in the actuarial value between the program's health maintenance organization coverage and the federally qualified high deductible health plan coverage, after taking into account any difference in employee premium contribution.

Updated Analysis

Due to the lack of employee premium and a sizable employer HSA contribution, the STAR plan is a more attractive option for employees in good health and who have relatively low annual healthcare costs. When the lower cost employees leave the traditional plan, the average cost rises for those who remain. This is where risk adjustment comes into play. The actuaries calculate a risk score for each covered individual and use that score to compare the traditional plan with the STAR plan as if there were no disparity in the risk of those covered by each plan. The intended effect of adjustment is to spread the risk across all employees, not just those in the traditional plan. When viewed before risk adjustment, the STAR plan is running a

surplus (premiums collected exceed the costs of claims and employer HSA contributions) and this surplus is subsidizing the traditional plan. However, once adjusted for risk, the opposite is true.

PEHP has revisited its original assumption that the STAR plan would have 79% of the actuarial value of the traditional plan and has concluded that this figure once adjusted for risk is closer to 89%. Instead of an 11% gap to fund the employer HSA contribution, there is only 1%. The fact that the PEHP risk pool as a whole is actuarially sound and employer HSA contributions are greater than the 1% difference implies that the STAR plan is 10% richer or employees than is the traditional plan.

Of additional concern is how annual PEHP cost increases are funded. Since those on the STAR plan pay no premium, the entire renewal cost must be covered through employer contributions and traditional plan employee premiums. This would result in a 9% increase for employers and those on the traditional plan for FY 2018, while those on the STAR plan would see no impact. If the plans were actuarially equivalent and those on the STAR plan were required to pay a premium, the rate increase would be just 6.2% for everyone.

Options

In order to make the plans actuarially equivalent, the simplest method would be to reduce the employer HSA contribution to reflect 1% instead of 11%. However, this would leave many employees, especially new employees, in a position of having little to no funds in their HSA for the first couple of years of employment.

PEHP has developed a few options that involve various combinations of increasing the STAR plan deductible and out-of-pocket maximums, reducing employer HSA contributions, and beginning to charge an annual premium for employees. All options reflect a reduction in employer HSA contributions from \$791.96/\$1,583.92 to \$750/\$1,500. By reducing the value of the STAR plan and requiring employee premiums, PEHP estimates a 6.2% renewal cost for the state instead of 9%.

1. Actuarial Equivalent

The Actuarial Equivalent option is intended to keep the employer contributions the same for the traditional plan and the STAR plan and to make the actuarial value equivalent for both plans based on updated relativities. This plan would make the following adjustments to the STAR plan:

- a. Raise deductibles from \$1,500/\$3,000 to \$2,000/\$4,000
- b. Raise the out-of-pocket maximums from \$2,500/\$5,000/\$7,500 to \$3,000/\$6,000/\$9,000
- c. Require annual employee premiums of \$202/\$426/\$672

2. Phase In

The Phase In option would keep the STAR plan deductibles the same but raise the out-of-pocket maximums from \$2,500/\$5,000/\$7,500 to \$3,000/\$6,000/\$9,000 and would require annual employee premiums. The premium amount would phase in over a number of years as to avoid a major jump in costs for those currently on the STAR plan. Annual employee premiums would phase in up to \$419/\$872/\$1,268.

3. Equal Deductible

The Equal Deductible option is designed to equalize the amount an employee pays toward the deductible of the traditional and STAR plans. This option would keep the STAR plan deductibles the same but raise the out-of-pocket maximums from \$2,500/\$5,000/\$7,500 to \$3,000/\$6,000/\$9,000 and would require annual employee

STAR Family Plan Premium Calculation

Traditional Plan Employee Premium	\$1,799
Traditional Plan Deductible	+ \$ 700
STAR Plan Employer HSA	+ \$1,500
STAR Plan Deductible	- \$3,000
STAR Plan Premium	\$ 999

premiums. Employee premiums for the STAR plan would be equal to the employee premium for the traditional plan plus the deductible for the traditional plan plus the employer contribution to the STAR plan minus the STAR plan deductible. Estimates for annual employee premiums for the Equal Deductible option are \$304/\$548/\$999.

Conclusion

The state's cost for the renewal for upcoming fiscal year without any changes to equalize the STAR plan with the Traditional plan is 9% or \$22.6M from all funds (\$11.5M from GF/EF). Equalizing the plans would bring the state's cost for the renewal to 6.2% or \$15.5M from all funds (\$8M from GF/EF) but would increase the employee premium costs by \$2.1M, reduce HSA contributions for employees by \$0.6M, and reduce the value of the STAR plan benefits by \$5.2M. To change the STAR plan to equalize it with the Traditional Plan will take a joint resolution of the House and Senate.